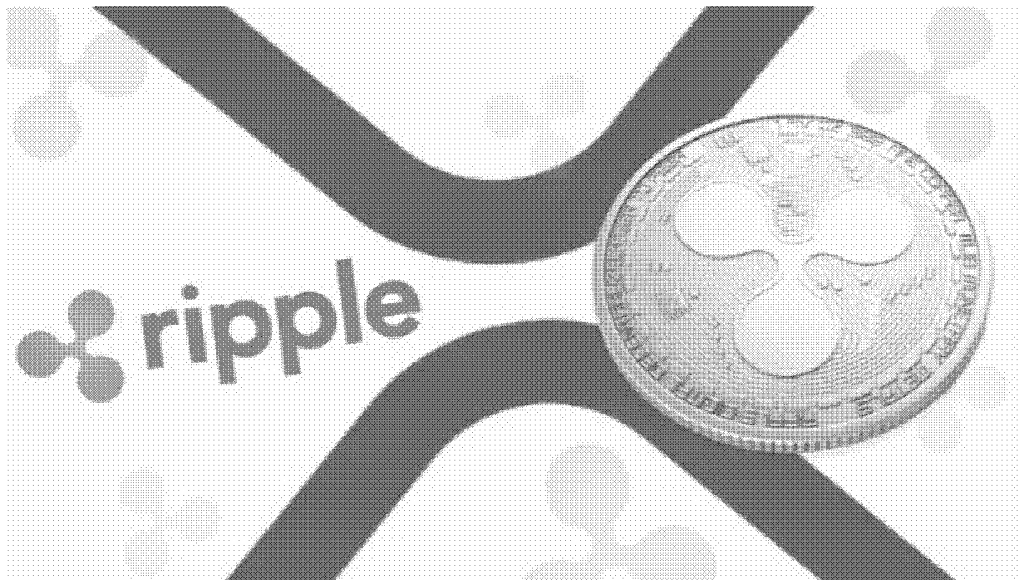


**PX 560**

Ripple Labs Inc

## With \$16bn in cryptocurrency, Ripple attempts a reset

The start-up is still trying to find compelling uses for the blockchain technology underpinning its XRP currency



Richard Waters 11 HOURS AGO

San Francisco start-up Ripple can lay claim to having created one of the most valuable cryptocurrencies. Its digital tokens, known as XRP, have a total value of almost \$30bn, behind only bitcoin and Ether.

But, eight years after launch, Ripple is still trying to find compelling uses for the blockchain technology underpinning its currency that would justify such a high figure. Now, in an effort to draw more users, it has struck out in a new direction: to try to become the Amazon of the cryptocurrency world, using its platform to support activities far beyond the original cross-border payments system it hoped to build.

The popularity of XRP has already made Ripple — and its leaders — far richer than most start-up software companies. The company has cashed in more than \$1.2bn of its own holdings of the cryptocurrency since early 2017.

It is also still sitting on about 55 per cent of the total supply, worth around \$16bn at current prices — far overshadowing its underlying technology business. As a result, the value of the company is tied “mainly to the XRP, with an option on a small software business”, said one former executive.

8/13/2020

With \$16bn in cryptocurrency, Ripple attempts a reset | Financial Times

Brad Garlinghouse, chief executive, admitted that Ripple is swayed heavily by the value of its crypto hoard. “We are a capitalist, we own a lot of XRP,” he said. “So do I care about the overall XRP market? 100 per cent.” But he added that the company’s aim was to “deliver a lot of utility through XRP”, something that is likely to take “years” as it develops applications that use its blockchain technology — and, by extension, justify the high price of the currency.

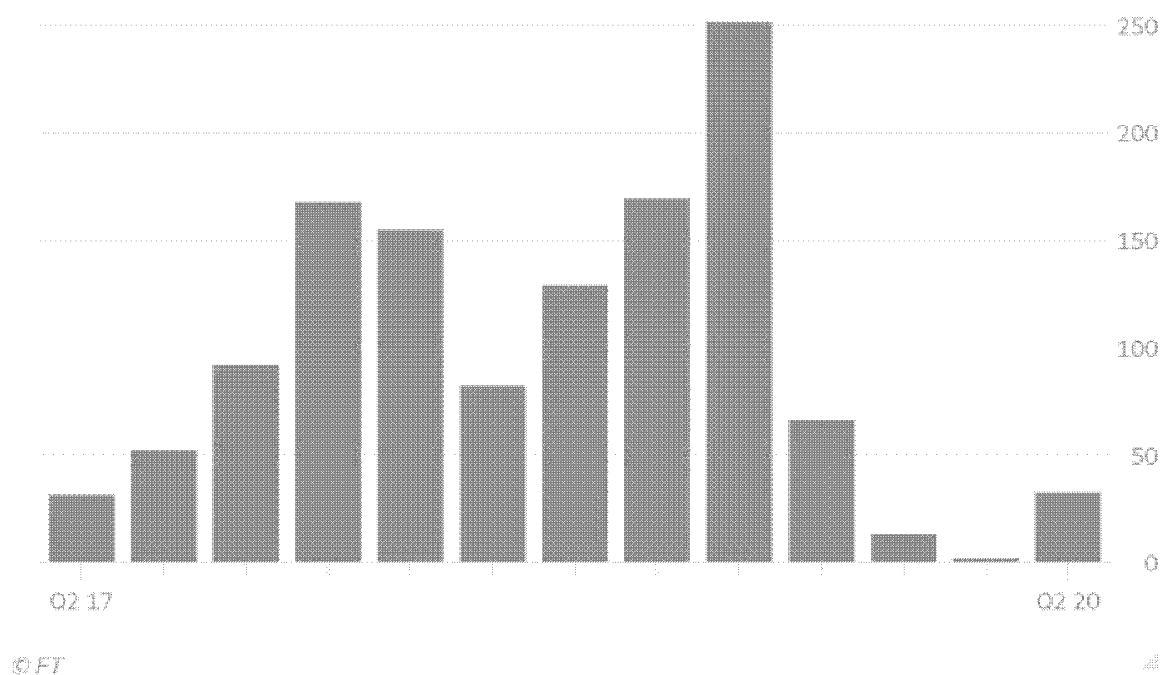
## The battle to win over the banks

Ripple’s original aim, to build a more efficient, wholesale cross-border payment system, has made slow headway with the banks that were the original target for the technology.

Santander, the Spanish lender that invested in Ripple in 2015, recently chose not to use XRP at the heart of an ambitious new international payment network — a sign that even some of Ripple’s strongest backers do not yet see a use for its core technology. Cedric Menager, the network’s chief executive, suggested that XRP was not actively traded in enough markets yet to support Santander’s needs. The bank wanted to “give the best [user experience] as quickly as possible and also operate in as many currencies and corridors as possible from the beginning,” he said.

### Ripple’s cryptocurrency sales stall

Value of XRP sold each quarter (\$m)



Ripple said that Santander was still using some of its software in the payments service and was “one of our largest and most important customers”. The company also claims a high growth rate for the XRP facility at the heart of its system, though it does not provide absolute figures, and also says many banks are using some elements of its software.

Many observers say Ripple was always facing an uphill battle in trying to win over the banks, which have already invested heavily in current technology and benefit from the current system.

“It’s like Uber trying to disrupt the taxi industry by working with the taxis,” said Michael Arrington, the founder of the TechCrunch news site and now at a \$100m cryptocurrency hedge fund.

Mr Garlinghouse blames uncertainty in the US over whether XRP tokens should be regulated as securities for discouraging more companies from using Ripple’s blockchain. He and the company also face a lawsuit over claims they sold unregistered securities.

Ripple has subsequently drawn on its main asset — its cryptocurrency reserves — to try to draw more users to its technology as it looks beyond the banks.

In cross-border payments, the company’s focus has turned to remittances, where customers face high fees to send relatively small amounts through money transfer companies. Last year, Ripple used some of its cash to buy a stake in MoneyGram, as well as Bitso, a Latin American cryptocurrency exchange. The investments helped to put its technology at the centre of about 7 per cent of all remittances from the US to Mexico in June, the company said.

But the success only represents one market, and has come at a cost. Moneygram’s filings show that Ripple handed it \$31m in “market development fees” to encourage use of XRP in the first half of this year — payments that accounted for 60 per cent of Moneygram’s operating profit.

Mr Garlinghouse defended the subsidies and said it was common practice for payment companies to use financial incentives to generate activity on their networks. He also said the need for payments such as this had fallen as activity had picked up: “If you look at more recent customers, it’s a different dynamic now than when we first got started.”

## ‘The Amazon of payments’

Ripple has also handed out hundreds of millions of dollars to stimulate wider uses of blockchain technology. A year ago, it said it had distributed the equivalent of more than \$500m — much of it in the form of XRP — through its Xpring fund, as a way to seed more new applications that use blockchain technology and might, indirectly, benefit Ripple in the long run.

That included handing \$260m worth of cryptocurrency to Coil, a start-up building a decentralised online media marketplace where creators can sell directly to consumers. Most of the money was earmarked as grants to attract developers and creators to join Coil's market, said Stefan Thomas, the company's chief executive and a former Ripple chief technology officer.

A year after launching a blogging platform, however, Coil seems to be generating little in return for the handouts. A German blogger identifying himself only as Benny has publicly disclosed his earnings on the service since the start of this year: the micropayments received for attracting readers add up to only about \$15. However, over the same period, Coil has given him \$2,250 worth of XRP as an incentive to keep writing.

Ripple has since cut back on the Xpring handouts and instead is now trying to produce the tools that developers need to create their own applications to run directly on its blockchain. Ethan Beard, who runs Ripple's developer efforts after once holding the same position at Facebook, said the company had moved from "writing cheques to writing code".

According to Mr Garlinghouse, this latest effort — which he described as an extension of the company's strategy, rather than a full shift in direction, will turn Ripple into a broader blockchain platform in much the way Amazon has become a platform for a wide range of ecommerce.

"Amazon started as a bookseller and just sold books. We happen to have started with payments," he said. "Two years from now, you're going to find that Ripple is to payments as Amazon was to books."

## Speculators are not giving up

The gamble is a reversal from the position Mr Garlinghouse took when he joined Ripple as chief executive five years ago and narrowed its focus to payments.

Unlike Amazon, however, Ripple has not yet produced a hit with its first application, leaving it without a big base of active users to sell other services to. Also, it has a controversial reputation in many parts of the cryptocurrency world, where its attempts to build bridges with the existing financial system clash with the radically anti-establishment motivations of many developers.

“It gets a lot of hate in the crypto world, because it’s trying to be close to the banks,” said Mr Arrington. In one sign that some of the most potentially disruptive new applications are not being attracted to its platform, a wave of experimentation in decentralised financial applications — known as DeFi — has been drawn instead to the Ethereum blockchain.

Despite Ripple’s struggles to find more uses for XPR, meanwhile, the speculators who have made it a fixture of the cryptocurrency markets are not giving up. Prices were subdued for much of this year, missing out on the jump for bitcoin and Ether, but then soared almost 50 per cent in the final week of July, putting them at their highest level since the coronavirus crisis hit.

Even the prospect of a long search for a purpose does not shake the confidence of the cryptocurrency’s biggest supporters. “It can take centuries for currencies to catch on,” said Mr Thomas at Coil.

*Additional reporting by Nick Megaw*

Copyright The Financial Times Limited 2020. All rights reserved.